



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE AGENDA
FEBRUARY 03, 2020
110 EAST MAIN STREET
LOS GATOS, CA
5:00 PM**

*Rob Rennie, Council Member
Marico Sayoc, Council Member
Ron Dickel, Committee Member
Terry Duryea, Committee Member
Rick Tinsley, Committee Member*

MEETING CALLED TO ORDER

ROLL CALL

CONSENT ITEMS *(Items appearing on the Consent Items are considered routine and may be approved by one motion. Any member of the Committee or public may request to have an item removed from the Consent Items for comment and action. If an item is pulled, the Chair has the sole discretion to determine when the item will be heard. Unless there are separate discussions and/or actions requested by the Committee, staff, or a member of the public, it is requested that items under the Consent Items be acted on simultaneously.)*

- [1.](#) Approve the Council Finance Committee Meeting Minutes of December 9, 2019.
- [2.](#) Approve the Town Council Finance Committee Meeting Schedule for the 2020 Calendar Year.

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Committee on any matter that is not listed on the agenda. To ensure all agenda items are heard and unless additional time is authorized by the Chair, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per speaker. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment.)*

OTHER BUSINESS *(Up to three minutes may be allotted to each speaker on any of the following items.)*

3. Adopt Committee Reorganization: Selection of Chair and Vice Chair.
- [4.](#) Review the Two Available California Employers' Pension Prefunding Trust (CEPPT) Asset Allocation Options and Provide a Recommendation to the Town Pension/OPEB Oversight Committee.

ADJOURNMENT



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
AGENDA REPORT**

MEETING DATE: 12/09/2019

ITEM NO: 1

**DRAFT
Minutes of the Council Finance Committee Meeting
December 9, 2019**

The Council Finance Committee of the Town of Los Gatos conducted a meeting on Monday, December 9, 2019, at 6:00 p.m.

MEETING CALLED TO ORDER AT 6:00 P.M.

ROLL CALL

Present: Mayor Steve Leonardis, Council Member Barbara Spector, and Committee Members Ron Dickel, Terry Duryea, and Rick Tinsley.

Absent: None

Staff Present: Town Manager Laurel Prevetti, Assistant Town Manager Arn Andrews, and Finance and Budget Manager Gitta Ungvari

CONSENT ITEMS

1. Approve Council Finance Committee Meeting Draft Minutes of October 14, 2019.

MOTION: Motion by Council Member Barbara Spector to approve the item, **Seconded** by Mayor Steve Leonardis.

VOTE: Motion passed unanimously.

VERBAL COMMUNICATIONS

None.

OTHER BUSINESS

2. Discuss and Provide Comments to the Town Council Regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019.

Mr. Badawi, the Town independent auditor, presented the highlights of the CAFR through a series of slides. Committee members discussed the information in an interactive format with staff and Mr. Badawi. The Committee reviewed, discussed, and provided comments on the Draft CAFR.

PAGE 2 OF 2

SUBJECT: Draft Minutes of the Council Finance Committee Meeting of December 9, 2019

DATE: December 18, 2019

Opened Public Comment.

No Public Comments

Closed Public Comment.

ADJOURNMENT:

The meeting adjourned at 7:40 p.m.

This is to certify that the foregoing is a true
and correct copy of the minutes of the
December 9, 2019 meeting as approved by the
Council Finance Committee.

Gitta Ungvari, Finance and Budget Manager



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 02/03/2020

ITEM NO: 2

DATE: January 23, 2020
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Approve the Town Council Finance Committee Meeting Schedule for the 2020 Calendar Year

RECOMMENDATION:

Approve the Town Council Finance Committee meeting schedule for the 2020 calendar year.

BACKGROUND:

In 2019, the Council Finance Committee met bimonthly on the second Monday of the month at 6:00 p.m. in the Town Council Chambers.

DISCUSSION:

If the current meeting schedule is continued for the 2020 calendar year, the proposed remaining dates are as follows:

April 13
June 8
August 10
October 12
December 7

Staff is proposing that the Committee meet at 5 p.m. in 2020 and that the December meeting be scheduled on the first Monday to provide the Town Council the ability to consider the Finance Committee's comments on the Comprehensive Annual Financial Report at its December 15th meeting.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 02/03/2020

ITEM NO: 4

DATE: January 23, 2020
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review the Two Available California Employers' Pension Prefunding Trust (CEPPT) Asset Allocation Options and Provide a Recommendation to the Town Pension/OPEB Oversight Committee.

RECOMMENDATION:

Review the two available CEPPT asset allocation options and provide a recommendation to the Town Pension/OPEB Oversight Committee.

BACKGROUND:

On September 3, 2019, the Town Pension and OPEB Trusts Oversight Committee directed staff to utilize the funds in the PARS account to make payments directly to CalPERS toward existing long-term amortization bases.

On September 17, 2019, the Town Council directed staff to terminate the PARS agreement, consistent with the Town Pension and OPEB Trusts Oversight Committee recommendation, and to return to Council with an agreement to initiate participation in the California Employers' Pension Prefunding Trust (CEPPT). The CEPPT Fund is a Section 115 trust fund dedicated to prefunding employer contributions to defined benefit pension systems for eligible California public agencies. On November 5, 2019, the Town Council authorized the Town Manager to enter into an agreement with CalPERS for participation in the CEPPT program.

With the CEPPT agreement in place, staff is requesting that the Finance Committee review the two CEPPT asset allocation options available through CalPERS and provide a recommendation to the Town Pension/OPEB Oversight Committee.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

SUBJECT: Review the two CEPPT asset allocation options available through CalPERS and provide a recommendation to the Town Pension/OPEB Oversight Committee

DATE: January 23, 2020

DISCUSSION:

CEPPT Asset Allocations

The investment time horizon for employers in the CEPPT is estimated by CalPERS to be short-term to medium-term, as employers plan for increasing required pension contributions in future years. CalPERS also recognizes that employers currently have options for: 1) investing in very low risk, short term options through their operating portfolio investments and 2) contributing directly to CalPERS or PARS type vehicles at a higher risk, long-term investment horizon.

In response, CalPERS established two diversified strategic asset allocations with low and moderate risk levels that are expected to have a net rate of investment return of 4.0% and 5.0%, respectively. CEPPT Strategy 1 accommodates a medium-term time horizon and a medium risk tolerance with a 5.0% expected return and 8.2% expected volatility. CEPPT Strategy 2 provides a shorter time horizon and lower risk tolerance with a 4.0% expected return and 5.2% expected volatility.

As illustrated below each asset allocation has varying degrees of exposure to equity, fixed income, Treasury Inflation Protected Securities (TIPS), Real Estate Investment Trusts (REITs), and liquidity. Following are the two asset allocations:

| Asset Allocation Targets | Benchmark | Strategy 1 | Strategy 2 |
|--|---|---------------|---------------|
| | | | |
| Global Equity | MSCI ACWI IMI (Net) | 40% +/- 5% | 14% +/- 5% |
| Fixed Income | Bloomberg Barclays U.S. Aggregate Bond Index | 47% +/- 5% | 73% +/- 5% |
| Global Real Estate (REITs) | FTSE EPRA/NAREIT Developed Liquid (net) | 8% +/- 5% | 8% +/- 5% |
| Treasury Inflation Protected Securities (TIPS) | Bloomberg Barclays U.S. TIPS Index (Series L) | 5% +/- 3% | 5% +/- 3% |
| Liquidity | 91-Day Treasury Bill | 0% +2% | 0% +2% |

SUBJECT: Review the two CEPPT asset allocation options available through CalPERS and provide a recommendation to the Town Pension/OPEB Oversight Committee
DATE: January 23, 2020

DISCUSSION (continued):

Anticipated CEPPT Assets

The first additional discretionary payment (ADP) of \$4,753,965 for the 2016 gain/loss amortization base was transferred to CalPERS from PARS on October 11, 2019. As of December 31, 2019, the PARS account had a residual balance of \$303,402. The Town's governmental fund balance committed to Pension/OPEB additional discretionary payments had a June 30, 2019 balance of \$4,232,500. Per previous Oversight Committee direction, the remaining PARS account balance in conjunction with committed Pension/OPEB fund balance will be used as an ADP to pay a 2015 gain/loss amortization base of approximately \$3,660,342 prior to September 2020. Based on the anticipated ADP to CalPERS prior to September 2020, an approximate residual fund balance of \$1,000,000 will remain for deposit into the CEPPT.

Per the Council adopted General Fund Reserve Policy, an approximate annual amount of \$400,000 is set aside for ADPs and in years when sufficient year-end savings exist after other reserve levels have been satisfied another \$300,000 is set aside for a potential total of \$700,000 annually. The current residual fund balance of approximately \$1,000,000 in conjunction with an additional \$400,000 to \$700,000 will make up the initial CEPPT asset base. It should be noted, that Council often allocates additional onetime surplus moneys towards ADPs during the annual budget development process. In the event Council allocates additional surplus funds toward ADPs, those monies would be in addition to the aforementioned \$1,400,000 to \$1,700,000 deposit.

The timing of asset withdrawal from the CEPPT would be predicated on future determination of additional amortization bases to target for payment as directed by the Town's Pension/OPEB Trusts Oversight Committee.

CONCLUSION:

Based on the unknown timing of withdrawals from the CEPPT at this time, staff believes the Finance Committee should consider recommending CEPPT Strategy 2 for initial receipt of Town deposits.

COORDINATION:

This staff report was coordinated with the Town Manager and Finance Department.

FISCAL IMPACT:

No impact is anticipated at this time given the all-inclusive fee rate of 25 basis points (0.25%) is lower than the fee structure previously paid to PARS.

PAGE 4 OF 4

SUBJECT: Review the two CEPPT asset allocation options available through CalPERS and
provide a recommendation to the Town Pension/OPEB Oversight Committee

DATE: January 23, 2020

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 02/03/2020

ITEM NO: 4

DESK ITEM

DATE: February 3, 2020
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review the Two Available California Employers' Pension Prefunding Trust (CEPPT) Asset Allocation Options and Provide a Recommendation to the Town Pension/OPEB Oversight Committee.

REMARKS:

Attachment 1 contains public comment received after publishing the Staff Report and before 11:00 a.m. on February 3, 2020.

Attachment (received with this desk item):

1. Public Comment Received after Publishing the Staff Report and before 11:00 a.m. on February 3, 2020.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

Subject:

Agenda Item #4 - Finance Committee

From: Phil Koen <pkoen@monteropartners.com>**Date:** January 31, 2020 at 5:58:07 PM PST**To:** Laurel Prevetti <LPrevetti@losgatosca.gov>**Cc:** "jvannada@gmail.com" <jvannada@gmail.com>, Lee Fagot <leefagot@gmail.com>**Subject:** Agenda Item #4 - Finance Committee

Dear Laurel,

Would you please be so kind as to distribute this email to the Finance Committee for their consideration. Thank you.

Dear Members of the Finance Committee:

The 2019 CAFR reported there was a total of \$9,247,816 in General Fund reserves set aside for unfunded pension liabilities. \$5,015,316 is in a General Fund **restricted reserve** and represents the funds that were previously held in the PARS and reported as part of the Fiduciary Funds statement. This was fully discussed in the CAFR. \$4,232,500 is in a General Fund **committed reserve** and represents the funds that were distributed as part of the general fund reserve policy after finalizing the 2019 audit. Staff has previously referred to this distribution process as the "waterfall" process.

It should also be pointed out that at the time the FY 2020 budget was adopted by Council, the 2020 budget had estimated the committed reserve to be \$690,000 before the waterfall process distributed an estimated "surplus" from FY 2019 results. The point here is that the actual committed reserve for unfunded pension liabilities is **far greater** than had been previously reported to the Council and the Finance Committee.

In reading the Staff report, it appears the Staff has committed to make ADPs to CALPERS totaling \$8,414,307 (\$4,753,965 plus \$3,660,342). This means that there is still \$833,509 available for an additional ADP to CALPERS.

My question is, why would the Town put \$833,509 in the CEPPT when financially it makes more sense to make an additional ADP of \$833,509 and further reduce the unfunded pension liabilities? This additional ADP would be consistent with the Council's stated priorities. Additionally, why would the Town wait to make the additional ADP's until September 2020? As I understand the facts, if the Town were to make an ADP now, CALPERS will adjust the 2020-2021 mandatory payment to reflect the pay down of amortization bases. By making the payment now, the Town would realize "FY 2021 budget savings" since the mandatory payment would be reduced to reflect these payments. Why wouldn't the Town want to take advantage of this?

Thank you.

Phil Koen